Supreme Court of the United States

OCTOBER TERM, 1960

No. 666

C. K. WILLIAMS & CO., INC.,

Petitioner,

v.

ARMOUR RESEARCH FOUNDATION OF ILLINOIS INSTITUTE OF TECHNOLOGY, AND MINNESOTA MINING & MANUFACTURING COMPANY,

Respondents.

CROSS PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT

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INDEX

	PAGE
I. Opinions Below	2
II. Jurisdiction	2
III. Questions Presented	2
IV. Statutes Involved	4
V. Statement of the Case	4
Proceedings Below	4
General Statement of Matters Involved	5
Development of Plaintiffs' Plan and Actions to Monopolize	6
VI. Grounds of Jurisdiction of District Court	11
VII. Reasons for Granting the Writ	11
1. The issues involve a manifestly unreasonable plan of restraint and monopolization which has sweeping effects in industry and upon interests of the public	13
2. Plaintiffs' agreements of 1947 and 1954 effected unreasonable restraints of licensing and competition in violation of the anti-trust laws, within the principles of U. S. v. Besser, 343 U. S. 444, and related cases	16
3. By their agreements and actions plaintiffs brought about an unlawful tie-in between the licensed use of Armour's recording patents and the use of media procured through 3M	18
4. The attempts to impose upon 3M's principal competitors restrictive agreements containing price, product and market controls constituted an unlawful attempt to monopolize	20

Plaintiffs' attempts to enforce a purported monopoly acquired through misleading and sham proceedings in the Patent Office violate public policy and the anti-trust laws 21

Plaintiffs' attempts to suppress the Williams business in magnetic iron oxides by a patent claim for a coated impulse record member is an unlawful use of the patent in suit. ... 24

Williams has been damaged by plaintiffs' anti-trust law violations 25

..... 25

TABLE OF AUTHORITIES.

Cases.

per v. Original Tractor Cab, 165 F. Supp. 565, ; aff'd 270 F. 2d 616 17
l Gasoline Corporation v. United States, 309 U. S. , 459 19
ford Empire v. United States, 323 U. S. 386 23
-Atlas v. Hartford Empire, 322 U. S. 238, 250 .. 23
national Business Machines Corp. v. United tes, 298 U. S. 131 19
national Salt Co. v. United States, 332 U. S. 392, ... 19
one Driller v. General Excavator, 290 U. S. 240 23
v. Barber, 302 U. S. 458 24
City Tent & Awning v. Clapper, 144 F. Supp. 767 17
id v. Mid-Continent, 320 U. S. 661 24
i Salt v. Suppiger, 314 U. S. 488 24
rgh Moire Co. v. Superior Moire Co., 237 F. 2d 20
rn Pacific R. Co. v. United States, 356 U. S. 1, 8-14 19
on Instrument v. Automotive Maintenance, 324 . 806 23
Corporation v. Lord, 282 F. 2d 257, 261 19
arent Wrap Machine Corp. v. Stokes & Smith, . S. 637, 647-8 17
States v. Aluminum Co., 148 F. 2d 416, 431 ... 21

United States v. Besser, et al., 96 F. Supp. 304; aff'd 343 U. S. 444 ..... 16, 17

United States v. General Electric Co., 80 F. Supp. 989, 1005 17

United States v. National Lead Co., 63 F. Supp. 513, 523-4; aff'd 332 U. S. 319 17

United States v. Parker Rust-Proof Co., 61 F. Supp. 805, 806, 810-11 and 813 17

United States v. U. S. Gypsum Co., 333 U. S. 364, 384-5 20

Statutes.

28 U. S. C. Section 1254(1) 2

28 U. S. C. Section 1337 11

28 U. S. C. Section 1338(a) 11

28 U. S. C. Section 2101(c) 2

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To the Honorable Chief Justice and Associate Justices of the Supreme Court of the United States:

C. K. Williams & Co., Inc. (Williams), a Defendant-Appellee-Appellant in the proceedings below, hereby petitions this Court for a writ of certiorari directed to the United States Court of Appeals for the Seventh Circuit to review the judgment of that Court entered July 12, 1960, insofar as it affirmed that part of the judgment of the United States District Court for the Eastern District of Illinois entered April 1, 1959 which dismissed Williams' Amended Second Counter-claim for alleged violation of the antitrust laws of the United States by the respondents

(hereinafter called plaintiffs), Armour Research Foundation of Illinois Institute of Technology (Armour) and Minnesota Mining & Manufacturing Company (3M), Plaintiffs-Appellants-Appellees in the proceedings below, and that part of the District Court's judgment which, taken with the findings of fact and conclusions of law on which it was based, held that plaintiffs were not guilty of misuse of Camras patent No. 2,694,656 in suit in said action.

I. OPINIONS BELOW.

The opinion of the Court of Appeals, dated July 12, 1960, and its opinion dated August 30, 1960, on petitions of Armour and Williams for rehearing, are reported in 280 F. 2d at pages 499 and 508, respectively. Copies of the opinions are annexed to Armour's petition filed in this Court under No. 553 on November 28, 1960 and therefore are not appended hereto. The opinion of the District Court is reported in 170 F. Supp. 871 and is printed at pages 3515-3556 of Plaintiffs' Appendix (PA).

II. JURISDICTION.

The jurisdiction of this Court is invoked under 28 U. S. C., Section 1254(1). This petition is filed within the time provided by 28 U. S. C. § 2101(c), as extended to December 28, 1960, by an order of the Honorable Justice Tom C. Clark entered November 25, 1960.

III. QUESTIONS PRESENTED.

1. Whether the anti-trust laws have been violated by the arrangements and course of action carried on by the plaintiffs continuously since 1946, by which Armour, a "not-for-profit" patent holding and research corporation operating a restrictive licensing system that dominates the whole magnetic recording industry, and 3M, a corporation domin-

and in the manufacture and sale of tape products, through restrictive agreements and other suppressive acts in concert, have attempted to give and in large measure have succeeded in giving exclusively to 3M the manufacture and sale of the tape recording media and materials therefor required for the magnetic recording machines of the American industry.

2. Whether plaintiffs' agreements of 1947 and 1954 hereinafter described constituted illegal restraints upon competition by binding Armour until 1971, and possibly until 1987, not to grant licenses under existing or future Armour patents, inventions or technology, and not to consent to the assignment, transfer or replacement of pre-existing licenses, with respect to products of specified classes committed exclusively to 3M, including magnetic tape recording media and materials useful for the manufacture of such media.

3. Whether plaintiffs' 1954 agreements and the Armour magnetic recorder license agreements made pursuant thereto constitute an unlawful tying arrangement.

4. Whether the plaintiffs or either of them have attempted to monopolize in violation of the Sherman Act by the attempted uses of Armour-owned patents to fix the prices, specifications and markets of the products of 3M's principal competitors in magnetic tape and concurrently to eliminate all other competition by litigation.

5. Whether plaintiffs have violated the anti-trust laws or otherwise created cause for the granting of relief to petitioner by their attempted enforcement of a patent procured through the use of false patent applications, sham interference proceedings and untrue representations in the United States Patent Office.

6. Whether plaintiffs have misused the patent in suit in violation of the anti-trust laws by their attempts, continuing in this Court, to extend the purported monopoly of

a patent claim for a coated magnetic impulse record member for the suppression of Williams' business in magnetic iron oxides which are commodities sold for many uses other than as a component of such a record member.

IV. STATUTES INVOLVED.

The pertinent statutory provisions are printed in Appendix A annexed hereto.

V. STATEMENT OF THE CASE.

Proceedings Below.

An action for alleged infringement of Camras patent No. 2,694,656 for Magnetic Impulse Record Member, Magnetic Material and Method of Making Magnetic Material was brought by Armour against Williams at 3M's request on May 27, 1955. 3M was later joined as a plaintiff to reply to counterclaims and by reason of its interests in the litigation under its agreements with Armour (PA 66, 3515, 3545). A suit was also filed by Armour against Technical Tape Corporation charging infringement of said patent by the manufacture and sale of recording tape and was consolidated and tried with the case against Williams.

In December, 1957, Williams filed its Amended Second Counterclaim against Armour and 3M (Defendants' Appendix (DA) 16-40, 63), charging them with misuse of said patent and with having entered into agreements and engaged in a course of conduct in violation of the antitrust laws to the injury and threatened injury of the public generally and of Williams, a manufacturer of iron oxides for various uses, including magnetic recording media in particular. The counterclaim sought damages and an injunction.

After trial the District Court held the patent invalid and

dismissed the complaint but ruled adversely to Williams on the antitrust and misuse issues and also dismissed the counterclaim. The Court of Appeals affirmed the judgment but said with respect to the District Court's findings on the counterclaim that "There was considerable evidence which would have justified contrary findings * * *." (Armour Petition Appendix B (APA "B"), p. 13.) It also said regarding the issues raised by the counterclaim: "We have considered the possibility of sending the case back to the trial court for additional findings on such issues. However we have finally determined that there are sufficient findings and conclusions before us so that we can now pass on such issues."

Williams filed a petition for rehearing on the anti-trust issues or, in the alternative, for remandment for additional findings on such issues, which petition was denied on August 30, 1960, as was a petition by Armour for rehearing on the patent issues. In its petition Williams urged, as it had in its brief below and as we will hereinafter point out, that from the unquestioned documentary evidence and undisputed or incontrovertibly established facts it fully appears, through application of the principles of authoritative decisions, particularly those of this Court, that Armour and 3M have misused the patent in suit and violated the anti-trust laws, and that the issues on this phase of the case, as distinguished from those on the patent phase, are therefore primarily issues of law rather than of fact.

General Statement of Matters Involved.

It is not disputed that Armour is the dominant research organization and patent holder in the field of magnetic recording and the licensor of practically the entire magnetic recording machine industry in the United States; nor is it questioned that 3M is the dominant company in the manu-

facture and sale of recording media (tape, etc.) and by far the largest producer of magnetic tape in the country.

There is, further, no question but that by their 1947 and 1954 agreements (PA 1966-1996, DA 639-641 and PA 1997-2031) Armour not only granted to 3M a license with respect to the field of such media and of materials for making such media (which license in one of the 1954 agreements was called exclusive), under the patent in suit and any and all other patents, applications and inventions which Armour then owned or might own in the future (through 1970 and potentially until 1987), but agreed that it would not grant any additional licenses in this field during the terms of the Armour-3M agreements, and would not consent to the assignment, transfer or replacement of any of its pre-existing licenses insofar as they granted any right with respect to this field.

Thus all of Armour's patents and inventions and all of its future developments and technology so far as they relate to this field were and still are committed to 3M to the exclusion of all competitors, present and future for a very long period of time.

These agreements and the conduct of the parties to them were designed—as Williams alleged and it is believed proved by uncontroverted evidence—to foreclose virtually all competition in this field and to give 3M a sweeping monopoly in supplying media for a new and fast-growing industry of great importance to the public.

Development of Plaintiffs' Plan and Actions to Monopolize.

As found by the District Court (PA 3546-7), magnetic recording work in the United States had been concentrated upon wire recorders through the end of World War II. In 1945-46 wire recorders developed for military use were being adapted for production for civilian

use and for operation at low speeds with the use of wire of high coercive force, which was manufactured to serve as a basic recording medium with Armour recording equipment.

Armour by then had obtained patents for a high frequency bias technique that is used universally for the magnetic recording of sound (PA 754-5, 1128), and had established under these patents a licensing system which by 1947 covered twenty-nine (29) companies (PA 1992) under restrictive license agreements (*e. g.*, PA 2627, 2640).

In 1945 publications in this country described the successful wartime development in Germany of magnetic tape recorders which utilized high frequency bias similar to the American wire recorders but employed as their recording media flexible plastic tapes coated with finely divided magnetic iron oxide. These recorders had been used successfully in radio broadcasting and other professional work requiring high performance quality, and for military field use (Finding 18, PA 3547).

Early in 1946, the Brush Development Company introduced its "Soundmirror", the first commercial home tape recorder, to the American market. This was a low cost machine using a paper tape coated with low cost black magnetic iron oxide. It operated at a tape speed of 7½ inches per second, which became the standard speed of American tape recorders (Finding 21, PA 3547).

Meanwhile, Indiana Steel Product Company developed a tape recorder designed to use a powder coated tape of high coercive force for high frequency response at a low record speed, and in September, 1945, Indiana brought this recorder to Armour seeking assistance in its adaptation to commercial use (Findings 22-23, PA 3547-8). Armour offered to cooperate if given exclusive rights to Indiana's work (DX 536), proposing in exchange to pro-

vide "the market for the new recording medium through the Armour licensing program and by means of past and future technical development of recording machines adapted to the new recording medium" (DA 538).

Upon Indiana's refusal to tie itself exclusively to Armour and with the marketing of the Brush recorder early in 1946, Armour set out to make a tape recorder of its own, planning also to bring Indiana under an Armour license agreement and, through its licensees, to see "our own methods of recording and reproducing used in a machine adapted for their tape or a tape that we might develop" (DA 547-553).

As the District Court found (Findings 26-34), Armour immediately produced for such tape a magnetic iron oxide of high coercive force "to match the Indiana tape coercive force values and to conform to Armour recording standards," using for this purpose a method which had been described previously in a publication of the U. S. Bureau of Mines. Quantities of such oxide were delivered without restriction to 3M for 3M's uses.

Armour had applied in June, 1946, for a patent, issued in 1950 as No. 2,528,261 (PA 3643), claiming as its invention a magnetic recorder combining a conventional sound recording head with wire or tape having a high coercive force (PA 3519, 3550). With the advent of that recorder, as the District Court found, there arose the first great need for magnetic recording tapes of high coercive force and low permeability (PA 3519-20).

In November 1946, 3M entered into negotiations with Armour for "a joint venture where Minnesota Mining would manufacture the tape for the Armour licensees" (DA 555).

These negotiations led to plaintiffs' license agreement of May, 1947 (PA 1966), which bound Armour not to grant additional licenses for tape manufacture and conditioned any 3M royalty obligation upon the ultimate procurement of an Armour patent covering 3M's products. They also led into activities through which the machines of the licensed recorder manufacturers became tailored for the use of 3M tape (DA 577-8, 813).

In this way, once the machines were so standardized, the tape market was limited to tape similar to 3M's, for, as the District Court found, magnetic recording media are manufactured to fit the recorders, there being a practical tie-in between the recording machine and the media to be used with it, and a magnetic recorder is not complete nor operative to give its intended performance until the mechanism is supplied with media having the form and magnetic characteristics of the media it was designed to use (PA 3546).

After entering into their 1947 agreement, both Armour and 3M filed patent applications which became involved in interference proceedings in the Patent Office. The manner in which these applications and interference proceedings were prosecuted and utilized as a part of what Williams alleges was an unlawful conspiracy between these parties will be pointed out in Section VII of this petition.

Plaintiffs in March 1954, after the success of their maneuvers in the Patent Office seemed to be assured, consummated revised agreements which let Armour take the desired patent but at the same time subjected the future conduct of its licensing system to more sweeping restraints in the interests of 3M (DA 639-41, PA 2016).

For the long term of the 1954 agreements, possibly even until 1987 (PA 2014), Armour is bound not to grant to others any license "to manufacture, have manufactured,

use, sell, lease or otherwise dispose of in the United States" either any "record member" (tape, etc.) or material (oxides, etc.) of the classes committed to 3M, and also not to consent to the assignment, transfer or replacement of any of its pre-existing licenses insofar as they grant rights with respect to such product (PA 2416). Further, as expressed in 3M's letter of March 18, 1954 (DA 639-641) confirming an agreement of March 9, 1954, Armour is required to "include in all of its subsequent license agreements relating to magnetic recording a provision specifically excluding from the license grant the right to make, use, sell or lease in the United States magnetic record material and or magnetic record members" of the classes committed to 3M.

Pursuant to those restraints, Armour since 1953 has entered systematically into license agreements with recorder manufacturers, typified by the Federal agreement (PA 2732) which invoke all the existing and future Armour patents collectively as the basis for license grants which purport to license the manufacture, sale and use of magnetic recorders, but from which are expressly excluded all rights to make or sell or even to use media or materials for making media. Thus the post-1953 Armour licensees, now including numerous important recorder manufacturers, are required to pay for the right to use any or all of Armour's patents and technology in magnetic recorders and yet to risk infringement charges on these same patents in order to make, sell or use media necessary for the completion and operation of their recorders, except as they may acquire rights to media through dealings with 3M.

Upon the issuance of the patent in suit in November, 1954, 3M promptly asserted this patent and later the Armour combination patent No. 2,728,261, "acting in this matter on behalf of the Armour Research Foundation"

(DA 653, 655), in attempts to impose upon the larger two of its tape competitors license agreements by which it would fix the prices, specifications and markets of their products (DA 662-81). Upon their refusals of such restraints (DA 166, 639, 642), 3M caused Armour to bring this litigation against Williams, knowing Williams to be the supplier of oxides used in the manufacture of their products (DA 523).

VI. GROUNDS OF JURISDICTION OF DISTRICT COURT

The District Court had jurisdiction under 28 U. S. C. § 1338(a) (patent actions) and 28 U. S. C. § 1337 (anti-trust actions).

VII. REASONS FOR GRANTING THE WRIT

Inasmuch as this is a cross-petition relating to matters of defense to the patent in suit and also to affirmative relief sought by way of counterclaim in the infringement suit, it is submitted at the outset that if Armour's petition heretofore filed under No. 533 should be granted, the present petition should surely also be granted so that all issues pertinent to the Armour petition would be before the Court. The issues raised by the counterclaim and the evidence in support of it would in that event have a direct bearing on the question of whether the patent, even if it were held valid, could be enforced against Williams, as well as on the question of whether the infringement suit was brought as a part and in furtherance of a conspiracy and scheme to restrain trade and create a monopoly to the injury of the public and of Williams, entitling Williams to affirmative relief.

However, since the strictly patent phase of the case involves only the usual issues of validity and infringement of a particular patent, turning essentially on questions of

fact on which the District Court and the Court of Appeals have concurred in holding against the plaintiffs after thorough consideration of the evidence relating to those issues, it is believed to be very clear that there are no valid grounds for granting a writ on Armour's petition.

The anti-trust issues, on the other hand, hinge largely on questions of law and this phase of the case involves important matters of public policy affecting many other persons, not merely these litigants. It was urged on behalf of Williams in the Court of Appeals that the District Court had failed to give effect to the applicable decisions of this Court and of other federal courts, but the Court of Appeals nevertheless affirmed the District Court's dismissal of the counterclaim, although indicating some reluctance to do so, as above pointed out. It thus, as we shall show, "decided a federal question in a way in conflict with applicable decisions of this court;" and, insofar as the plan of monopolization here involved differs from those involved in prior decisions of this Court, "decided an important question of federal law which has not been, but should be, settled by this court" (Rule 19(b)).

Therefore there are cogent reasons for granting a writ to review this separate and independent part of the case; and granting it would in no sense call for reciprocal granting of Armour's petition since the narrow and personal issues to which the latter is directed have been determined by the proper tribunals and involve no questions which need be passed upon by this Court.

1. The Issues Involve a Manifestly Unreasonable Plan of Restraint and Monopolization Which Has Sweeping Effects in Industry and Upon Interests of the Public.

From plaintiffs' admissions, their written agreements in evidence and other unquestioned documentary evidence of their activities, it is clear that the plaintiffs have combined and used their powers to restrain competition and to monopolize in a plan which unreasonably affects the interests of practically all the producers and users of magnetic recorders in this country and the whole structure of competition and future development in fast-growing fields of great importance to the public.

There are some 71 major manufacturers of magnetic recording machines operating within the Armour licensing system (DA 703). None appears to be outside it. An accumulation of more than 250 patents is now used in the system, and new patents and patent applications are continually added to it, both from within Armour's organization and by outside acquisitions (DA 17, 41, 703). By reason of license restrictions imposed upon the manufacturers in their original agreements with Armour, which invoke all the existing and still-unborn Armour patents as the basis for restricted license grants (DA 707-16, 754-5, 781), and the additional restraints required in Armour's conduct of its licensing system by its agreements with 3M, the whole magnetic recording manufacturing industry is now either deprived of, or is threatened with loss of, all freedom to produce, sell or use any recording media of the nature of magnetic tape, or any material for the manufacture of such media, to the extent that any claim of any existing or any future Armour patent may be held or thought to apply thereto.

The industry dominated by this restrictive system embraces a vast complex of businesses and services relating

to magnetic recorders. Its products serve a multitude of uses in homes, schools, vehicles, industries and offices, in fields of communications, education, entertainment and transportation, and for various industrial, governmental, military, scientific and other purposes (Pleadings, DA 19, 42, 49).

The recorders serving these uses, in order to be complete or operative for their intended performance, must be supplied with media manufactured with a particular physical form and particular magnetic characteristics to fit the recorders (Findings 16, PA 3546; Pleadings, DA 19, 42, 49). Through plaintiffs' activities in the early post-War years, the Armour-licensed manufacturers of the American industry were induced to design their machines for the use of 3M tape (DA 577-8, 813). This early setting of built in recorder characteristics made the growing use of American tape recorders dependent upon supplies of media having characteristics like those of the 3M tape. Tape not made to fit the machine settings cannot be sold (DA 175-6).

In a competitive economy, competition in such media would normally arise to fulfill the needs of the Armour licensees and of the purchasers and users of their machines. From the beginnings of the American industry, however, the plaintiffs have combined and used their dominant powers in concerted actions designed to take advantage of the practical tie-in that exists between machines and media and to extend 3M's original favored position into a long-term monopoly over all the tape media and materials required for the use of the industry's machines. Their plan, ever since 1946, has made use of restrictive agreements, groundless patent applications and interferences, license boycotts, atempted price- and product-fixing arrangements, and patent infringement suits—all with the one consistent goal of perpetuating a 3M monopoly from which Armour, a "not-for-profit" corporation supposedly

operating for the public interest, would collect its benefits in media royalties paid by 3M over and above the royalties already collected by Armour from the licensed recorder manufacturers.

The two pioneer companies in home tape recorders, Brush Development Company and Indiana Steel Products, were subjected early, through threats or suit, to Armour licenses which severely restricted their rights to compete (DA 547-554, 575, 583, 733-5), after which they suffered business deaths.

Large numbers of important companies seeking licenses or assistance for businesses in fields of magnetic tape, film or oxides have been turned away by Armour and 3M (*e.g.*, DA 573, 580-2, 600-1, 634, 637, 648-9, 652, 654, 689-700).

There has been practically a total license boycott against all business with respect to tape or like media and materials for making them. This boycott has reached into the control of Armour's assets and the conduct of its licensing system so far that Armour since 1954 has been powerless to grant to its recorder licensees any rights to make, sell or use tape media or material even for their own machines.

There are now well over 2,000,000 American tape recorders in service in the hands of the public (DA 705)—all presumably produced and sold by Armour licensees with license under all the Armour patent holdings. Plaintiffs' concerted plan and attempts to destroy all competition in the manufacture and sale of the tape required by the makers and users of these machines thus involve the interests not only of scores of manufacturers but also of millions of users of magnetic recorders in preserving competitive sources of supply for their tape needs.

We submit that this plan and course of conduct as a whole is manifestly in violation of Sections 1 and 2 of the

Sherman Act and Sections 3 and 16 of the Clayton Act, and of principles well established by decisions of this Court.

2. Plaintiffs' Agreements of 1947 and 1954 Effected Unreasonable Restraints of Licensing and Competition in Violation of the Anti-Trust Laws, Within the Principles of U. S. v. Besser, 343 U. S. 444, and Related Cases.

Article XIX of the agreement of May 19, 1947, between Armour and 3M provided that, with certain inconsequential exceptions, "Armour * * * will not grant additional licenses to manufacture tape magnetic record members in the United States or on an element of said tape magnetic record members * * *" (PA 1981); and in Article XVIII of the agreement of March 25, 1954, Armour covenanted that it would not grant to anyone else "a license to manufacture, have manufactured, use, sell, lease or otherwise dispose of in the United States" either any "record member" (tape, etc.) or material (*e. g.* magnetic iron oxide) of the types licensed to 3M, and also that it would not consent to the transfer or replacement of any of its pre-existing licenses insofar as they granted any rights with respect to such products.

Armour was bound to the agreement until December 31, 1970, and potentially for a period up to 1987 (PA 2014); and the license to 3M included all Armour's existing and future patents, patent applications and inventions relating to magnetic record material or magnetic record members, or any element thereof (PA 1997, *et seq.*).

By these arrangements Armour, although the owner, would be bound by agreement during this long period not to grant any license under its present or future patents or inventions in this field without the consent of 3M, which was thus, in effect, given a veto power over Armour's exercise of its patent rights. The result was that all pres-

ent and potential competitors were foreclosed from access to and competitive use of an industry-dominating accumulation of patent rights and technology, to create an industry-wide monopoly in recording media in one already dominant producer.

We submit that these agreements are manfestly unreasonable and unlawful and that they are contrary in principle to a line of cases beginning with *U. S.* v. *Besser*, 96 F. Supp. 304 (E. D. Mich., 1951), affirmed by this Court in 343 U. S. 444 (1952), in which an agreement by licensors, who were joint owners of patents, that they would not grant other licenses without the consent of the existing licensees, was declared illegal.

Since the *Besser* case, the courts have held covenants against the granting of additional licenses to be illegal where they create restraints on competition (*e. g. Mason City Tent & Awning* v. *Clapper*, 144 F. Supp. 754, 767 (W. D. Mo., 1956) and *Clapper* v. *Original Tractor Cab*, 165 F. Supp. 565, 576, aff'd 270 F. 2d 616 (C. A. 7—1959).

The application of a restrictive agreement "to patents not yet issued and to inventions not yet imagined" is an evil which was pointed out in *U. S.* v *National Lead Co.*, 63 F. Supp. 513, 523-4 (D. C., S. D., N. Y.—affirmed by this Court in 332 U. S. 319—see p. 341), and which was referred to in *U. S.* v. *Parker Rust-Proof Co.*, 61 F. Supp. 805, 806, 810-11 and 813 (E. D. Mich.) and *U. S.* v. *General Electric Co.*, 80 F. Supp. 989, 1005 (S. D., N. Y.). The comments of this Court in *Transparent Wrap Machine Corp.* v. *Stokes & Smith*, 329 U. S. 637, 647-8, also recognize the vice of such an arrangement between parties who are in position to prevent competition.

While each of these cases involved other grounds of decision also, and in some of them the question of future inventions and improvements arose in connection with

grant-back provisions, they all support the proposition that when the purpose and effect of an agreement whereby one party acquires the exclusive control of the other party's inventions and improvements over a long period of time is to eliminate present and potential competition, as is the case here, and where the parties are dominant in the industry, as they are here, the arrangement is violative of the Sherman Act.

3. By Their Agreements and Actions Plaintiffs Brought About an Unlawful Tie-in Between the Licensed Use of Armour's Recording Patents and the Use of Media Procured Through 3M.

As already pointed out herein, the tape recording machines of the Armour-licensed industry, which provide the only use and market for magnetic tape, came to be manufactured and sold in great numbers with circuits and settings suiting them for their intended performance only with tape having the characteristics of the 3M tape.

Notwithstanding these facts, which are undisputed, the post-1953 Armour recorder license agreements (PA 2732) have provided, in keeping with the 1954 agreements between Armour and 3M that they grant no license for the making, sale or use of magnetic record members or material and shall not be construed as granting any such license by implication. They undertake, however, to license the making, use and sale of "licensed machines", which they define as magnetic recorders that embody or make use of any of the "licensed inventions". Licensed inventions in turn are defined as those of all Armour patents relating to magnetic recorders; and magnetic recorders are defined as machines or apparatus designed for recording, etc., by the use of a magnetic record member.

Obviously the post-1953 licensee does not obtain a com-

plete and operable license through his dealings with Armour. He is told he may make, sell and use an Armour recorder but at the same time is told he has no license to make, sell or use the media necessary for the completion and operation of the recorder. By reason of the 1954 agreements, 3M alone holds Armour's permission to make, sell or use tape or like media, and 3M only holds the power to let others use the patents insofar as they apply to either the making or the use of such media.

The effect, therefore, is the same as if the licenses to the machine manufacturers were granted on an express condition that any act of selling or actually using a complete magnetic recorder fitted with the required tape or similar media is subject to 3M's approval and control.

3M's policy has been to refrain from granting either oxide or tape licenses (DA 582, 697). So in practice the recorder licensee can get the permission he needs only by obtaining his required tape or media material from 3M.

The tie-in effect of plaintiffs' agreements upon the post-1953 Armour licensee is the same whether the medium to be used with his machine is itself patented or not patented. It is brought about by the force and restrictive uses of the whole bundle of Armour's patents, including combination and process patents. Thus, it violates the principle established in *Ethyl Gasoline Corporation* v. *U. S.*, 309 U. S. 436, 459 (1940).

Other pertinent cases involving somewhat similar tie-ins are *Radio Corp.* v. *Lord*, 282 F. 2d 257, 261 (C. C. A. 3, 1928) and *IBM* v. *U. S.*, 298 U. S. 131 (1936).

The use of tying arrangements to foreclose competitors from any substantial market is held unreasonable *per se* and a violation of public policy. *Northern Pacific* v. *U. S.*, 356 U. S. 1, 6, 8, 8-11 (1958); *International Salt* v. *U. S.*, 332 U. S. 392, 395 (1947).

4. The Attempts to Impose Upon 3M's Principal Competitors Restrictive Agreements Containing Price, Product and Market Controls Constituted an Unlawful Attempt to Monopolize.

After procurement of the patent in suit through untrue representations to the Patent Office (concerning which the District Court leniently said (PA 3543) that "Camras either was not, at the time of the application, the expert on the preparation of oxides that he wanted the Patent Office to believe, or he did in fact materially misrepresent the prior art") and by sham interference proceedings (which the Court of Appeals characterized as "in the nature of shadow boxing"—C. A. Op., p. 8), 3M sought to use it as the basis of proposed license agreements with the larger two of its competitors (Reeves Soundcraft Corporation and Audio Devices, Inc.) imposing suppressive and plainly illegal price, product and market controls over their businesses beyond any lawful use of any patent (see Soundcraft draft DA 62, *et seq.*).

The refusals of those agreements were followed by this litigation against Williams attempting to cut off the source of magnetic iron oxides supplied to competing media manufacturers and to many other users (PA 1184-5, 1505-7). 3M's attempt to impose the agreements was continued after the institution of this litigation (DA 170).

While space does not permit describing these suppressive proposals in detail (see DA 147-168), it is deemed clear that their provisions were contrary to such cases as *U. S. v. U. S. Gypsum Co.*, 333 U. S. 364, 384-5 (1948) and *Newburgh Moire Co. v. Superior Moire Co.*, 237 F. 2d 283 (C. A. 3, 1956).

That they were made with the specific intent to monopolize is evident, not only from their almost unbelievably

monopolistic character and from Armour's earlier minutes showing 3M's purpose to have "the market maintained in an orderly fashion" (DA 609), but also from memoranda made by Sounderaft's executive (Rogers) contemporaneously with meetings by which 3M's top executive (McKnight) attempted to bring Sounderaft under them (see DA 521-8). Among other things, Rogers recorded:

> "* * * McKnight came right out and said that if they couldn't make this thing work on a Price Control License basis, they were not going to be put in the position of having people undersell their prices. He said they would reduce their prices down so low that nobody could exist! He suggested we come along, or do it the hard way!" (Dx. 2-L, DA 523.)

The District Court evidently recognized the inherent illegality in these attempts but apparently was influenced by the fact that they were rejected by Sounderaft and Audio, its opinion stating (170 F. Supp. 871, 887) "the fisherman was at the water's edge, had made his cast, but no fish took the bait." The Court apparently overlooked the fact that Section 2 of the Sherman Act makes an "attempt to monopolize", as well as consummated monopolization, a violation of the Act (*U. S. v. Aleoa*, 148 F. 2d 416, 431 (C. A. 2, 1945)).

5. Plaintiffs' Attempts to Enforce a Purported Monopoly Acquired Through Misleading and Sham Proceedings in the Patent Office Violate Public Policy and the Anti-Trust Laws.

After entering into their 1947 agreement, both Armour and 3M filed patent applications, each claiming the subject matter of the patent in suit as a patentable invention of its own creation. The Armour applicant (Camras) had made the claimed magnetic oxide by methods disclosed in the literature (Findings 26 to 29, PA 3548-9). Smith;

the applicant of one of the 3M applications, had followed the literature and "did not believe that he had made any discovery or done anything new in making the oxides." (Findings 35-36, PA 3550.) 3M filed its patent applications to "block any gaps which might be left by Armour", knowing that Armour too was trying to patent the oxide and planning that if interference developed it "could be handled on a perfectly friendly basis" (DA 464; CA Op., p. 12).

Plaintiffs' separate pressures upon the Patent Examiner resulted ultimately in the declaration of interferences which were carried on for nearly two years, through the proceedings described by the Court of Appeals as "in the nature of shadow boxing", before being terminated privately by concessions of priority in 1954.

Meanwhile, plaintiffs used those sham proceedings to defeat, through misleading representations, motions brought by a third party to dissolve them for unpatentability (PA 1134, DA 469, PA 2414-5). They also used them to bring into the Armour application, thence into the patent in suit, claims originating from the 3M applications and additional claims which they proposed in the course of the proceedings (*e.g.*, PA 3272-3, 3288-9).

The patent in suit, which the District Court described as "stillborn" (PA 3542), resulted, in addition, from untrue representations of fact made directly in the Armour application, which the District Court found "were and are incorrect" (PA 3543). Although that Court stated that it could not say that the patentee was guilty of *wilful* misrepresentation, it did say, as above noted, that he either was not expert "or he did in fact materially misrepresent the prior art in the oxide field • • •"

However, the District Court did not give full import to the effect of the evidence and of its Findings 35 and 36 (PA

3550), which show that the 3M patent applications (which, with the interference, were used as a part of the scheme by which the claims which ultimately went into the patent in suit were secured) must have been fraudulent applications; and, although the Court of Appeals indicated it was aware of the falsity in those applications and mentioned the fact that, upon plaintiffs' private termination of the interference proceeding, Armour agreed to restraints upon the future conduct of its licensing system (CA Op., p. 13), that Court also failed to go further into the question of whether the plaintiffs by their conduct in the Patent Office and their attempts to enforce the purported monopoly of the resulting patent were violating the anti-trust laws and public policy.

This question, we submit, is one of great importance to the public as well as to Williams. If such false patent applications and sham interference proceedings could be used with impunity to secure a patent monopoly a new avenue would be available for circumvention of the principles set forth by this Court in *Precision Instrument* v. *Automotive Maintenance*, 324 U. S. 806 (1948), *Hazel-Atlas* v. *Hartford Empire*, 322 U. S. 238, 250 (1944), *Hartford Empire* v. *U. S.*, 323 U. S. 386 (1945); and *Keystone Driller* v. *General Excavator*, 290 U. S. 240 (1933). In the *Precision Instrument* case, this Court said at p. 816:

> "The far reaching social and economic consequences of a patent * * * give the public a paramount interest in seeing that patent monopolies spring from backgrounds free from fraud or other inequitable conduct * * *."

The actions of the plaintiffs in their initiation and conduct of the Patent Office proceedings were part and parcel of their combination and conspiracy to create and maintain over a long period of time an unlawful monopoly and to prevent legitimate competition in the manufacture and sale

of magnetic recording tape and materials; and they should be considered in their relation to the inception and carrying out of the conspiracy.

6. Plaintiffs' Attempts to Suppress the Williams Business in Magnetic Iron Oxides by a Patent Claim for a Coated Impulse Record Member Is an Unlawful Use of the Patent in Suit.

Attempts have been carried on by the plaintiffs since 1955, and are continued by Armour's petition filed in this Court under No. 553, to use claim 26 of the patent in suit—a claim for a coated magnetic impulse record member—for the suppression of the business of Williams in high coercive force magnetic iron oxides which Williams sells in the form of bulk powders to a wide variety of customers for use not only in the manufacture of coated impulse recording media but also in many other important products. These oxides are sold, for example, for uses in printing inks and carbon paper, for classified uses of the Armed Services, for the manufacture of magnetic belts impregnated with oxide, and for various other uses in the electromagnetic fields (PA 1184-5, 1505-7).

This attempted extension of claim 26 of the patent into a monopoly over commodities of commerce plainly outside the limited scope of the claim flies directly in the face of a long line of decisions of this Court. *Leitch* v. *Barber*, 302 U. S. 458 (1938); *Morton Salt* v. *Suppiger*, 314 U. S. 488 (1942); *Mercoid* v. *Mid-Continent*, 320 U. S. 661 (1944). We submit that this is a clearly unlawful abuse of the patent and is a part of the pattern of conspiracy hereinabove outlined.

7. Williams Has Been Damaged by Plaintiffs' Anti-Trust Law Violations.

It is manifest that but for the plaintiffs' monopolistic agreements and practices and the repressive effect of their groundless suit, Williams would have retained much business which it lost and would have had a great increase in its sales of hydrogen-reduced oxides (the kind commonly used for magnetic recording tape). The evidence shows that the value of its sales of such oxides dropped substantially in a period of rapid business growth (PA 1507-1511). In addition, Williams has been put to great expense as a result of plaintiffs' suit on a patent which they must have known to be invalid and the procurement and uses of which have been in furtherance of their conspiracy and illegal combination. Thus the damage element of Williams' case is clearly present.

CONCLUSION

For the foregoing reasons it is respectfully submitted that this petition for a writ of certiorari should be granted.

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APPENDIX A.

Statutes Involved.

Sections 1 and 2 of the Sherman Antitrust Act (15 U. S. C. §§ 1 and 2) and Sections 4 and 16 of the Clayton Anti-trust Act (15 U. S. C. §§ 15 and 26), reading in part as follows:

"§ 1. Trust, etc., in restraint of trade illegal; exception of resale price agreement; penalty

Every contract, combination in the form of a trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is declared to be illegal * * *."

"§ 2. Monopolizing trade a misdemeanor; penalty

Every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several States, or with foreign nations, shall be deemed guilty of a misdemeanor. * * *"

"§ 15. Suits by persons injured; amount of recovery

Any person who shall be injured in his business or property by reason of anything forbidden in the anti-trust laws may sue therefor in any district court of the United States in the district in which the defendant resides or is found or has an agent, without respect to the amount in controversy, and shall recover threefold the damages by him sustained, and the cost of suit, including a reasonable attorney's fee. * * *"

"§ 26. Injunctive relief for private parties; exception

Any person, firm, corporation, or association shall be entitled to sue for and have injunctive relief, in any court of the United States having jurisdiction over the parties, against threatened loss or damage by a violation of the anti-trust laws * * *."

IN THE

Supreme Court of the United States

OCTOBER TERM, 1960

No. 606

C. K. WILLIAMS & CO., INC.,

Petitioner,

vs.

ARMOUR RESEARCH FOUNDATION OF ILLINOIS INSTITUTE OF TECHNOLOGY and MINNESOTA MINING & MANUFACTURING COMPANY,

Respondents.

BRIEF FOR RESPONDENTS IN ANSWER TO CROSS PETITION OF C. K. WILLIAMS & CO., INC. FOR THE WRIT OF CERTIORARI

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INDEX

PAGE

Introduction 1

Statutes Invoked 5

Cross-Petitioner's "Questions" Do Not Properly Arise In This Record 5

Cross-Petitioner's Asserted Reasons For Granting The Writ And Authorities Cited In Support Thereof Are Not Applicable To The Facts As Found By The Lower Courts 10

The Grant Of An Exclusive License Is Specifically Authorized By The Patent Statutes 10

Armour's Machine Licensees Were Not Required To Use The Recording Media Of The Patent In Suit. There Was No Tie-In 15

There Was No Attempt To Monopolize 16

Cross-Petitioner's Pretended Concern For The Public Interest 17

No Damage To Cross-Petitioner 18

Conclusion 21

Table of Cases

Benz et al v. Celeste Fur Drying & Dressing Corp., 57 F.Supp. 895, 899 (DC, SD NY, 1944) 16, 17

Cole v. Hughes Tool Company, 215 F. 2d 924, 935 20

Keogh v. Chicago & N.W. Ry. Co., 271 Fed. 444, 447; Aff'd. 260 U.S. 156 18

Mason City Tent & Awning Company v. Clapper, 144 F. Supp. 754, 765, 766 19

Technical Tape Corp. v. Minnesota Mining & Mfg. Co., 135 F. Supp. 505 8

PAGE

Transparent-Wrap Machine Corp. v. Stokes & Smith Co., 329 U. S. 637, 647 6

United States v. Besser Mfg. Co., 96 F. Supp. 304; Aff'd. 343 U.S. 444 13

United States v. E. I. duPont de Nemours & Co., 118 F. Supp. 41, 214, 224, 225, (DC, Del.) Aff'd. 351 U. S. 377 12

Western Electric Company v. Pacent Reproducer Corp., 42 F. 2d 116 (CA 2, 1930) 12

STATUTES

35 U.S.C. Sec. 261 ..... 1a

35 U.S.C. Sec. 271 (c) (d) 1a, 2a

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Introduction.

Defendant Williams' Cross-Petition for the Writ of Certiorari sets forth no reasonable basis for the granting of such a petition. Cross-Petitioner urges this Court to review the judgment of the United States District Court as affirmed by the United States Court of Appeals for the Seventh Circuit that there was no violation of the anti-trust laws and no misuse of the Camras Patent No. 2,694,656. The findings of the District Court in this regard were predicated upon a full consideration of testimony of a large number of witnesses examined in open court and a full consideration of extensive documentary evidence.

It will be noted that Cross-Petitioner does *not* contend that the findings of fact as made by the District Court and approved by the Court of Appeals are "clearly erroneous" but rather contends that the issues covered by the Cross-Petition are "primarily issues of law rather than of fact" (p. 5). We submit that upon the specific facts as found by the Courts below there was no violation of the antitrust laws, no misuse of the patent in suit, no damage to Cross-Petitioner as a result of any alleged illegal acts of the plaintiffs, consequently no misapplication of the law to the facts as found and, therefore, no basis whatsoever for granting the Cross Petition for the Writ of Certiorari.

What Cross-Petitioner has done is to prepare a Cross-Petition which is replete with mischaracterizations of the facts. To these mischaracterizations of the facts have been added insidious adjectives for the purpose of presenting "Questions" which do not arise in the record in this case. Upon these irrelevant questions the balance of the Cross-Petition is predicated.

The fallacious character of the Cross-Petition is clearly demonstrated by the facts as found by the District Court (unchallenged in the Cross-Petition) and affirmed by the Court of Appeals that:

1. There has been no price-fixing.
   (Finding No. 61; PA 3555)
2. There was no patent pooling or cross-licensing.
   (Finding No. 61; PA 3555)
3. There has been no use of a patent or patents to control the manufacture, use or sale of unpatented articles or materials.
   (Finding No. 61; PA 3555)
4. There has been no attempt to force others to buy only the patented products.
   (Finding No. 61; PA 3555)

5. There has been no joint control of any licensing program between the plaintiffs.
(Finding No. 61; PA 3555)

6. The evidence does not substantiate the charge that Camras or his attorneys willfully made any misstatement or misrepresentation to the Patent Office in the allowance of the Camras patent in suit.
(Finding No. 60; PA 3554-5)

7. There was no misuse of the patent in suit.
(Finding No. 62; PA 3555)

8. The defendants have suffered no damage as a result of any alleged illegal acts of the plaintiffs in misuse of the patent in suit in violation of the antitrust laws.
(Finding No. 63; PA 3555)

Stripped of the mischaracterizations and innuendoes, and considered in the light in which found by the Courts below, the facts of the case are clear and simple. There was no combination between the two plaintiffs, no concerted action and indeed no joint action in any capacity. Neither of the plaintiffs has any control over the other, any say in the business of the other, nor any veto power over what the other does. Plaintiffs are neither competitors nor potential competitors. Minnesota is a manufacturer. Armour, a not-for-profit research organization associated with Illinois Institute of Technology, does no manufacturing. (PRA 24)

The relationship between Armour and Minnesota was one of licensor and licensee. In 1947 Armour granted Minnesota a partially exclusive license (PA 1966). In 1954 Armour granted Minnesota an exclusive license (PA 1997) to the full extent that it was able to do so. This agreement terminated the 1947 agreement. That exclusive license also gave Minnesota the right to grant sub-

licenses. Since an exclusive license by its very nature precludes the granting of further licenses, Armour retained no right to grant further licenses, except as noted below, and hence Minnesota had no control over Armour's right to grant further licenses. That right in Armour had ceased to exist. Armour, on the other hand, had no control or say over the granting of sub-licenses by Minnesota (PRA 25). This exclusive license of 1954 is not a joint venture but is merely a conventional type exclusive license. Neither the grant of an exclusive license nor the grant of a partially exclusive license constitutes an illegal act since the Federal Statutes specifically provide for such a grant (35 U.S.C. § 261 (1952)).

Cross-Petitioner makes much of alleged false patent applications and alleged sham interference proceedings. There are no facts to support such a contention and the Courts below so found (Finding No. 60, PA 3554-5).

Cross-Petitioner contends that Armour's machine licenses were tied to Armour's tape patent. The Courts below found to the contrary (Finding No. 61, PA 3555). The testimony of witnesses and the license agreements themselves make it clear that there is no support for such contentions. There was no limitation in any machine license which specified either the type of recording media (wire or tape) to be used or the magnetic characteristics of the media. (PRA 20)

Cross-Petitioner further contends that because plaintiffs included claims in this suit directed to a magnetic tape as well as claims directed to the magnetic oxide *per se*, it is an extension of the monopoly of the patent. The accused oxide was made specifically for magnetic tape and hence Cross-Petitioner was charged with contributory infringement (of the tape claims) as well as direct in-

fringement (of the oxide claims). The law specifically defines and provides remedies for contributory infringement as well as direct infringement (35 U.S.C. § 271 (c) and (d). Thus Cross-Petitioner here seeks to invoke a defense which the Congress specifically rejected in the 1952 Patent Act.

The Cross-Petitioner suffered no damage as a result of any alleged illegal acts of plaintiffs and hence on this ground alone is not entitled to relief. The Courts below so found. (Finding No. 63, PA 3535).

Statutes Invoked.

The pertinent statutory provisions invoked in this answer are printed in Appendix A annexed hereto. These include Sections 261 and 271 (c) and (d) of Title 35 U.S.C. (Sections of Public Law 593, 82nd Congress). See also Section 15 of Title 15 U.S.C. printed in Appendix A of the Cross-Petition, which requires that the plaintiff in an antitrust "shall be injured in his business or property . . ."

Cross-Petitioner's "Questions" Do Not Properly Arise in This Record.

We will briefly demonstrate that no "question" as stated in defendant's Cross-Petition properly arises in this record.

1. This question pertains to an alleged "restrictive licensing system" and alleged "restrictive agreements" of Armour. The Armour machine licenses are *not restrictive*. They are a grant of a non-exclusive right to manufacture, sell and use machines embodying one or more of Armour's inventions. A typical license is that to Eicor, Inc. (PA 2660). From an inspection of this license, it will be clear that there are no restrictive covenants. To prevent misunderstanding, the agreement makes it clear what is and

what is not included in the grant. The machine licenses, which were non-exclusive, granted rights in any machine field desired by the prospective licensee. If the licensee should engage in the business of manufacturing and selling products embodying one of Armour's patented inventions but outside of the scope of the grant, the licensee would not be violating the contract, but would be infringing Armour's patent rights. This is an important distinction which negatives the claim that the machine licenses are restrictive. It is particularly important to note that the machine license (as exemplified by the Eicor agreement) provides no veto power or control by the licensee over Armour's licensing program or over those to whom licenses may be granted.

2. This question seeks to inquire as to whether the grant of an *exclusive license* is illegal. Such licenses are specifically authorized by the Patent Laws (Title 35 U.S.C. 261). The inclusion of improvements of licensor in such agreements is usual and necessary in order to permit licensee to enjoy the rights granted, subject to payments of the royalties agreed upon, without the necessity of negotiating a new license each time that the licensor makes a change or modification. Although this Court recognized a possible vice in the much more severe requirement that there be a *grant-back* of improvement patents by *licensee* to licensor, it held in *Transparent-Wrap Machine Corp.* v. *Stokes & Smith Co.*, 329 U.S. 637; 647, that:

> "Congress has made no specific prohibition against conditioning a patent license on the assignment by the licensee of improvement patents."

Here, there are no provisions for a grant-back. The license involved is a usual exclusive license under which *licensee* acquired a license under licensor's improvements in the

specific field licensed. Armour at no time obtained any rights from Minnesota under the latter's patents. Plaintiffs-respondents have operated within the frame work of the Patent Laws as found by the Courts below (Findings 61 and 62; PA 3555)*.

3. This question, which relates to the alleged relationship of the 1954 Armour-Minnesota agreement and the Armour machine licenses, does not arise in this record because no Armour machine licensee is limited to the use of any particular type of record media (PRA 20); no Armour machine licensee is required to use any specific record medium (*e.g.* tape or wire) but on the contrary may use any record media that it chooses. Armour cannot and does not dictate or even advise any particular machine construction or adjustment (PA 1786-7). It is further clear in this record that tapes other than the tape of the Camras patent in suit, were and are available to Armour's licensed machine builders, including a low coercive force tape made by Minnesota and on which it paid no royalties to Armour (PA 938-9) and including the Brush and German tapes of the prior art so highly praised by defendants in their defense to the charge of infringement of the Camras patent. The District Court found no "unlawful tying arrangement". Its Finding No. 61 (PA 3555) in such respect was affirmed by the Court of Appeals.

4. This question, which is predicated on the offer of drafts of price control licenses by Minnesota, which were never signed by anyone, does not arise in this record. The Court below found that there "has been no price-fixing". (Finding No. 61, PA 3555). This record further establishes that non-price fixing agreements were offered

* Insofar as Cross-Petitioner's allegations relate to the Armour-Minnesota 1954 license, that matter has become moot. The license has been terminated.

by Minnesota to the three largest tape manufacturers (DA 820-1; PA 1874-5). Furthermore, neither Armour nor Minnesota was the first to bring suit involving the Camras patent. The first suit (a declaratory judgment suit) was brought by Technical Tape Corp., a defendant here and a respondent in No. 553. This was brought in the United States District Court for the Southern District of New York and was dismissed for lack of jurisdiction over Armour, an indispensable party (*Technical Tape Corp.* v. *Minnesota Mining & Manufacturing Company*, 135 F. Supp. 505). Thus the characterization "eliminate all other competition by litigation" stated in Question 4 does not arise in this record. In a declaratory judgment suit brought by Audio Devices, Inc. in the Southern District of New York, against Minnesota and Armour, charges of antitrust violations and misuse were withdrawn and dismissed with prejudice prior to trial. No infringement suit was ever brought against Reeves Soundcraft, a large tape manufacturer.

5. This question, which is based upon alleged "false patent applications" and alleged "sham interference proceedings" does not arise in this record. The Courts below made no finding as to "false patent applications". Finding No. 60 (PA 3554-5) is directly to the contrary. *Dicta* in the Opinion of the Court of Appeals (280 F. 2d 499; 507), concerning the interference proceeding being "in the nature of shadow boxing", did not result in a reversal of the District Court's findings dismissing the antitrust and misuse counterclaims. The "sham patent application" charge is supported, not by the record, but by sheer innuendo. This was a situation where Minnesota, having knowledge of the superior properties of tape made with the Camras oxide developed an oxide having apparently equally desirable properties. Without knowledge of what

might be included in the Camras patent application, Minnesota filed an application describing and claiming the process and product so developed. This is ordinary, proper and usual procedure and is the only method by which Minnesota could have protected features of its process and product that might be patentable over Camras. Neither Minnesota nor Armour had knowledge of the contents of the others' application until the Patent Office declared them to be in Interference (PA 907-10; DA 597-9). The fact that a subsequent consideration of the evidence of both parties in connection with that Interference justified a decision that Camras was the prior inventor of that subject matter does not support the charge that Minnesota or Armour filed a "sham patent application". The Courts below refused to so find although the point was extensively argued. The lack of justification for this observation is emphasized by Attorney Abbott's letter to H. P. Buetow, President of Minnesota (PA 2032-3), which indicates the care with which the evidence was examined prior to the concession of priority to Camras, the senior party. (See also testimony of Dr. Wetzel, PA 1139).

6. This question, which seeks to predicate a charge of alleged misuse and violation of the antitrust laws by virtue of defendant Williams having been charged with contributory infringement,* where the oxides sold by Williams were "especially for magnetic recording devices—sound tape * * *" (PA 1952-3), does not arise in this record in view of Title 35 U.S.C. Sections 271(c) and (d). This section of the Statute was specifically enacted in order to clarify a patentee's right to sue for contributory infringement.

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* Williams was also charged with direct infringement of claims of the Camras patent directed to the magnetic tape oxide.

Cross-Petitioner's Asserted Reasons For Granting The Writ And Authorities Cited In Support Thereof Are Not Applicable To The Facts As Found By The Lower Courts.

We have previously pointed out that the facts as found by the Courts below are not challenged in the Cross-Petition and that the purported "Questions" stated in the Cross-Petition do not arise in the record in this case. These facts, coupled with the dismissal below of defendants' counterclaims, the affirmance of that dismissal and the denial of defendants' Petition for Rehearing, amply justify the denial of the Cross-Petition. The very fact that Judge Duffy, although expressing some doubts originally, found (280 F. 2d 499, 507) "there is in the record credible evidence to support the Court's findings on these issues" (the antitrust issues) and that "The same holds true of the Court's finding that defendants did not prove the alleged misuse of the patent in suit", is indicative of the Court's careful study of the record as to these issues.

Based upon the findings so made, authorities cited by Cross-Petitioner are inapplicable to the case at bar because the premise upon which each such authority is bottomed is not present here.

The Grant Of An Exclusive License Is Specifically Authorized By The Patent Statutes.

Cross-Petitioner asserts that plaintiffs have carried on persistently and in concert since 1947 an extraordinary course and plan of monopolization which was unreasonable, illegal and injurious to Cross-Petitioner. It seems to have lost sight of the fact that there was no combination and that the two companies, which are not competitors in any sense, did not and do not act jointly in any

capacity. *Neither company has any control over the other, any say in the other's business, nor any veto power over what the other does.*

Armour originally granted Minnesota a partially exclusive license in 1947 (PA 1966). That license was terminated by the 1954 agreement.

In 1954 Armour granted an exclusive license to Minnesota (PA 1997) to the full extent that it was able to do so. The grants of the 1954 license were essentially the same as those of the 1947 agreement (which the 1954 agreement replaced), and the royalty rate with respect to licensee's sales of recording tape was the same. The 1954 agreement is more closely akin to a truly exclusive license in that the licensee Minnesota is given the right to grant sublicenses under Armour's inventions in the magnetic record member field (PA 1908). This agreement also includes a provision, of the type frequently found in exclusive licenses, to the effect that the licensor agrees to bring suit at the licensee's request and at the licensee's expense (PA 1907-9). Since Armour had granted an exclusive license to Minnesota and since an exclusive license, by its very nature, precludes the granting of further licenses, Minnesota obviously has no control over the grant of licenses by Armour for Armour had fully disposed of that right to Minnesota. Furthermore, there is not a single provision either expressly or by implication wherein Armour has any control or say over the granting of sub-licenses by Minnesota. This 1954 agreement, as was also the case with the 1947 agreement, does not represent a joint venture in which the parties to the agreement are consulting with each other as to how they shall exploit the market (as in cases cited by Cross-Petitioner) but rather Minnesota has the sole control of such property rights as have been

granted to Minnesota. Armour has sole control of such property rights as have been retained by Armour. In both the 1947 and 1954 agreements, Armour retained rights to assure fulfilling the public demand for the patented magnetic recording tape in the event of failure to do so by Minnesota (PA 1981-2; 2017).

There is not one iota of evidence in this case which would establish that either has ever consulted the other about how it should handle or deal with its respective property rights. Neither the grant of an exclusive license nor the grant of a partially exclusive license constitutes an illegal act. The Patent Act specifically provides for such a license (35 U.S.C. § 261 (1952)).

Minnesota was an "exclusive" licensee, notwithstanding the fact that it took its exclusive license subject to certain existing specified non-exclusive licenses.

The Court of Appeals for the Second Circuit in *Western Electric Co.* v. *Pacent Reproducer Corporation*, 42 F. 2d 116 (CA 2, 1930), had this to say:

> "But a license to practice the invention may be accompanied by the patent owner's promise that others shall be excluded from practicing it within the field of use wherein the licensee is given leave. • • • p. 118)
>
> "• • • The definition of an exclusive license, • • • might be thought to imply that an 'exclusive licensee' is a sole licensee. But we do not so understand it. A bare license might be outstanding in one when the patent owner grants a license to another accompanied by the promise that the grantor will give no further licenses. • • •" (p. 119)

See also *United States* v. *E. I. duPont de Nemours & Co.*, 118 F. Supp. 41, 214, 224, 225 (DC, Del.), aff'd. 351 U.S.

377, where at page 224, the Court held: "As owner of these patents duPont had a right to grant an exclusive license and under the cases such a license in no way violates the provisions of the Sherman Act."

Cross-Petitioner places much reliance on the *Besser* case, *(United States v. Besser Mfg. Co.* 96 F. Supp. 304; aff'd. 343 U.S. 444). That case was cited in defendants' brief in the District Court and again in defendants' brief on appeal. The controlling facts in the *Besser* case are entirely absent here.

In the *Besser* case, the alleged conspiring parties, Besser and Stearns, were both large competing manufacturers of concrete blocks. Both owned or controlled patents on machinery important in the manufacture of such concrete blocks. In the instant case, Armour Research Foundation is not a manufacturer at all. It is a not-for-profit research organization interested solely in research and cooperating with Illinois Institute of Technology in advancing technological education.

In the *Besser* case, the defendant company at about the time of expiration of its principal patent sought to obtain control of its competitor Stearns by surreptitious means and did obtain *de facto* control as a result of such efforts. Here, Armour has no interest in Minnesota beyond the royalties which it collects from that company, and Minnesota has no interest in Armour beyond its obligation to pay the latter royalties due under its exclusive license arrangement.

In the *Besser* case, *joint* control of the granting of licenses was exercised by Besser and by its competitor and co-licensee Stearns. The contract between Stearns and Besser required *their joint consent* before licensing others. As the District Court stated (96 F. Supp. 311): "It is this

combination requiring *collective action* that primarily invalidates the agreement." No such collective action is present in the Armour-Minnesota agreement. Minnesota has the right to grant sub-licenses subject to the payment of royalties to Armour. It does not even need to advise Armour of its negotiations for sub-licenses, and its only obligation to Armour, once a sub-license is granted, is to pay royalties due as prescribed in the agreement. *No collective action whatever is here involved.*

The cases cited on page 17 of the Cross-Petition in apparent criticism of the inclusion of the usual provision that a license shall include improvements of the *licensor* are so inapplicable as to lead to the conclusion that the citation thereof constitutes a deliberate attempt to indirectly misrepresent the facts here of record.

In the cited cases, the contracting parties were *competitors*. Here, Armour, a not-for-profit research organization, does no manufacturing and in no sense can be called a "competitor" of Minnesota.

In *U.S.* v. *Parker Rust-Proof Co.* and in *U.S.* v. *General Electric Co.*, the contracts provided for "grant-backs" from licensee(s) to licensor. Here, there are no such grant-backs.*

U.S. v. *National Lead* cited involved not only an agreement between competitors, but a division of territory between competitors—facts not remotely related to those of record here.

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* Previously in this brief, we have cited the holding of this Court as to "grant-backs" in the **Trans. Wrap** case. Provisions there held not illegal were far more restrictive than the simple requirement here that the license include improvements made by **licensor.**

Armour's Machine Licensees Were Not Required To Use The Recording Media Of The Patent In Suit There Was No Tie-In

We have pointed out that Question 3 does not properly arise in this record since magnetic recorder licensees were under no obligation to use the patented tape and had other non-infringing tapes (and wire) available. The particular record medium used was solely within the control of the recording machine manufacturers and not within the control of either plaintiff.

No "tie-in" can be implied from Minnesota's efforts to have machine manufacturers adapt their machines for Minnesota's tape. This was merely good salesmanship. Armour had no part in it.

One tape manufacturer, Reeves Soundcraft, said on May 3, 1955 (DA 687) that it had found a non-infringing material "superior in all respects to the material we have been using in the past." Nothing in the Armour machine licenses and nothing in Armour's exclusive license to Minnesota precluded the use of such non-infringing material or of the prior art materials asserted by Cross-Petitioner, in its defense to the charge of infringement of the Camras patent, to be so satisfactory for magnetic recording purposes. The fact that Cross-Petitioner chose to appropriate the Camras invention was not within the control of either plaintiff. Here, there was no "tie-in", as spuriously asserted by Cross-Petitioner, and therefore the cases cited at page 19 of the Cross-Petition are clearly not applicable.

In *Ethyl Gasoline Corp.* v. *U.S.*, 309 U.S. 436; 459, cited, the patentee manufactured a fluid which it sold to refiners for the treatment of fuel. No royalties were derived by the patentee from the sale of the patented fuel and the Court held that "Such benefits as result from the control

over the patented fuel accrue primarily to the refiners and indirectly to appellant only in its enjoyment of its monopoly of the fluid secured under another patent."

Here the only income of Armour is through royalties. It manufactures nothing. Its recording machine licensees pay royalties on machines covered by its machine patents. Armour has no control over the type of recording machine made by its licensees. If those machines are outside the Armour machine patents, the licensee pays no royalty.

Minnesota, under its license, paid royalties to Armour for tape made by it and covered by the Camras patent. It also manufactured and sold low coercive force tape on which it paid no royalty to Armour (PA 938-9).

The other cases cited on page 19 of the Cross-Petition all involve situations wherein the grant was conditioned either directly or indirectly or by the granting of more favorable terms (as in the *IBM* case) upon the use of material (or services as in the *Northern Pacific* case) not covered by the patents or lease upon which the grant was based. These were true "tie-ins".

Here, the machine licensee could use any tape that it chose. It can use wire. If it chose to use the tape of the Camras invention, that is a tribute to the invention —not a "tie-in".

There Was No Attempt to Monopolize.

Cross-Petitioner asserts that the *offer* of price-control licenses by Minnesota to Reeves Sounderaft Corporation and Audio Devices, Inc. constitutes an unlawful attempt to monopolize. The mere *offer* of an unsigned document for purposes of negotiation affords no basis for predicating a combination in restraint of trade. *Benz et al.* v.

Celeste Fur Dyeing & Dressing Corp., 57 F. Supp. 895, 899 (DC, SD, NY, 1944). Furthermore, even if it be assumed that the offer of price-control licenses was made in an attempt to monopolize, the Cross-Petition completely ignores the fact that any such attempt was abandoned through the subsequent offering of non-price-fixing agreements by Minnesota to three large competing tape manufacturers (DA 820-1; PA 1874-5; 1882).

Admitting as it must that the District Court was correct in finding that no agreement was entered into, Cross-Petitioner speciously implies that this litigation was brought by reason of that fact. The refusals of those agreements were not "immediately followed by this litigation against Williams". This litigation was started May 27, 1955. Prior to that date, there was no final refusal of the profered licenses by either Reeves Sounderaft (DA 682, 688) or Audio (DA 681). Technical Tape (one of the defendants below) and not the plaintiffs started the *first* suit involving the Camras patent (See 135 F. Supp. 505; 509).

The litigation against Williams was instituted under the patent laws for patent infringement. Such institution of suit was not "an illegal attempt to fix prices and to monopolize." *United States* v. *Aluminum Co.*, 2 Cir., 1945, 148 F. 2d 416, cited at page 21 of the Cross-Petition does not support Cross-Petitioner's contention.

Additional cases cited by Cross-Petitioner likewise are not applicable here. In those cases, there was actual price-fixing. Here there is none.

Cross-Petitioner's Pretended Concern For The Public Interest.

At pages 11 and 12 of the Cross-Petition, concern is expressed for the public interest in that allegedly "this

phase of the case involves important questions of public policy affecting many other persons, not merely these litigants". The lack of sincerity of this position is evident from a statement made in an ex parte application to Mr. Justice Clark for an extension of time within which to file the instant Cross-Petition. In that application, counsel for Cross-Petitioner stated *inter alia* that it had concluded that "it would not petition for a writ of certiorari on the antitrust phase unless the respondents should petition on the patent phase". This, we submit, is something less than an altruistic concern for the public interest. Rather, it would appear to represent the grave private concern of the Cross-Petitioner which appropriated the Camras invention, substantially in its entirety and only commercially produced the patented magnetic recording tape oxides after it had learned full details of the process and product from Armour's then licensee, National Standard Company (PA 2777-01).

No Damage to Cross-Petitioner.

Although it submits no Question in such respect, the Cross-Petition speculates* that Williams would have retained business which it lost and would have increased its magnetic recording tape oxide business but for the activities of plaintiffs. This speculation is contrary to the record and to Finding of Fact No. 63 (PA 3555).

Cross-Petitioner's President Mr. Ayers, testified that the sales of all hydrogen-reduced magnetic iron oxide for the years 1954, 1955 and 1956 were 337,313 pounds, 297,419 pounds and 344,029 pounds, respectively (PA 1507-8). Mr. Ayers failed, however, to give any testimony as to

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* See Keogh v. Chicago & N.W. Ry. Co., 271 Fed. 441, 447; aff'd 260 U.S. 156

what portion of these total figures was represented by magnetic iron oxide of the type accused in this lawsuit so that it is obvious that the figures have no significance. Furthermore, it will be noted that while the dollar volume of magnetic iron oxide sold in 1956 was somewhat less than that sold in 1954, the actual pounds of magnetic iron oxides produced by hydrogen reduction were greater in 1956 than in 1954 (PA 1507-8). Mr. Ayers further testified (PA 1513) that the business of Williams increased from $10,000,000 in 1947 to $15,000,000 in 1957.

Mr. Ayers explained that two of their principal magnetic recording tape customers decided to make oxide in their own plants (PA 1510). Williams in effect is thus urging that it should have a monopoly of tape oxides and that its former customers had no right to make their own tape oxide. Williams does not contend that Minnesota captured the magnetic tape oxide business from it.

In *Mason City Tent & Awning Company* v. *Clapper*, 144 F. Supp. 754 (a case cited by Cross-Petitioner), the Court clearly and succinctly points out what a plaintiff must prove before damages may be recovered when a private party plaintiff seeks relief under the Sherman Act. Specifically, the Court states (pp. 765, 766):

> "It is an axiom of private Sherman Act litigation that before damages may be recovered for claimed violation thereof, '(plaintiff) must establish two things: (1) *A violation of the Antitrust Act and (2) damages to the plaintiff proximately resulting from the acts of the defendant which constitute a violation of the Act*'." (Italics ours)

We submit that plaintiff Armour was fully justified in bringing this suit for infringement of the Camras patent. Minnesota was later joined as an additional party plaintiff on motion of defendant, PA 66). The following ob-

servations made by Chief Judge Phillips of the United States Court of Appeals for the Tenth Circuit in *Cole* v. *Hughes Tool Co.*, 215 F. 2d 924, 935, are equally applicable here:

> "(3) While we hold for the reasons hereinafter more fully set forth that Patent No. 2,233,746 is invalid for want of invention, Hughes was fully justified in bringing the instant actions for alleged infringement of that patent by the defendants. The bit covered by that patent was primarily designed for use in softer formations. That was a field in which Hughes' competitors had provided a more satisfactory bit. The bit covered by that patent met problems of drilling in the softer and more plastic formations, which Hughes, with all its research organization, theretofore had not been able to solve, and it enjoyed very substantial commercial success. By virtue of 66 Stat. 812, 35 U.S.C.A. § 282, that patent was presumed to be valid and the burden of establishing its invalidity rested upon the party asserting invalidity."

Here the Cross-Petitioner's tape oxide and the magnetic recording tape made therewith by defendant, Technical Tape Corp., respond fully to the claims in suit (Px 2 and Px 3, PA 1952-3; Px 27A, PA 2151; PA 1164-73; Px 11, PA 1965; Px 4, PA 1954-5). We suggest that Cross-Petitioner Williams did not believe the Camras invention to be groundless when it sent its chief research scientists Rodrian and Stephens to obtain full information from Armour's licensee, National Standard, on September 22, 1948 (PA 2777-87) in order that Williams might supply samples of tape oxide "comparable to Armour's within a short time" (PA 2788-9). Prior to this suit, Mr. Joseph Ayers, an executive of Cross-Petitioner, told Soda of Technical Tape that the oxides furnished by Williams to Technical Tape "did infringe" (PA 1232).

CONCLUSION.

It is respectfully submitted that on the unchallenged findings of fact of the Courts below and for the reasons stated herein there was (1) no violation of the antitrust laws, (2) no misuse of the patent in suit, (3) no damage to Cross-Petitioner and, therefore, defendant's Cross-Petition should be denied.

Respectfully submitted,

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Appendix "A".

United States Code Title 35—Patents

§ 261. Ownership; assignment

Subject to the provisions of this title, patents shall have the attributes of personal property.

Applications for patent, patents, or any interest therein, shall be assignable in law by an instrument in writing. The applicant, patentee, or his assigns or legal representatives may in like manner grant and convey an exclusive right under his application for patent, or patents, to the whole or any specified part of the United States.

A certificate of acknowledgment under the hand and official seal of a person authorized to administer oaths within the United States, or, in a foreign country, of a diplomatic or consular officer of the United States or an officer authorized to administer oaths whose authority is proved by a certificate of a diplomatic or consular officer of the United States, shall be prima facie evidence of the execution of an assignment, grant or conveyance of a patent or application for patent.

An assignment, grant, or conveyance shall be void as against any subsequent purchaser or mortgagee for a valuable consideration, without notice, unless it is recorded in the Patent Office within three months from its date or prior to the date of such subsequent purchase or mortgage.

§ 271. Infringement of patent

(c) Whoever sells a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use

in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial non-infringing use, shall be liable as a contributory infringer.

(d) No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following: (1) derived revenue from acts which if performed by another without his consent would constitute contributory infringement of the patent; (2) licensed or authorized another to perform acts which if performed without his consent would constitute contributory infringement of the patent; (3) sought to enforce his patent rights against infringement or contributory infringement.